

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Ukraine

Food Processing Ingredients

Annual Report

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Report Highlights:

Supported by increased demand for food products and slowly rising disposable incomes, the Ukrainian food processing industry is gradually recovering after the 2008/09 decline. The industry satisfies over 92 percent of domestic demand and remains the most stable part of Ukrainian's economy in the post-crisis period. Over time, industry demand for imported ingredients shifted from basic bulk commodities to more advanced products. Demand for bulk ingredients decreased in areas where domestic agriculture was able to provide competitive alternatives. The trading environment in Ukraine remains complicated and non-transparent. Opportunities exist for the US industry but potential exporters are advised to secure an experienced Ukrainian partner with established contacts who is capable of navigating the myriad of obstacles facing imported ingredients.

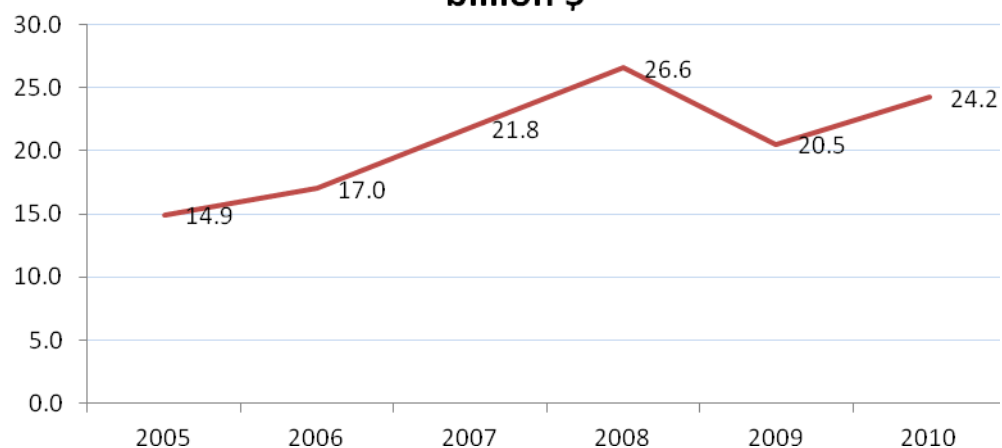
Post:

Kiev

SECTION I. MARKET SUMMARY

Ukraine ranks among the largest countries in Europe with a population over 45 million. With rich black soil, a favorable climate, Black Sea ports, and close proximity to major consumer markets in the Europe Union, the Former Soviet Union (FSU), North Africa and the Middle East, Ukraine has the potential to become a regional agricultural powerhouse. Given the country's significant potential, Ukraine is in a strong position for significant growth in the agricultural sector. The food-processing sector in Ukraine had developed rapidly during the pre-crisis years, but shows some signs of slowing down in the post-crisis period. The before-crisis production level is expected to be achieved by 2013-14.

Agricultural Processing Industry Turnover, billion \$



Source: State Statistics Service of Ukraine

In 2011, the food industry accounted for more than eight percent of GDP and captured 18 percent market share in manufacturing. The fastest growth rate occurred in vegetable oil, confectionary, and alcoholic beverages production.

Table 1. Production of Selected Food Products

Food Products	2007	2008	2009	2010
Beef and Veal, Chilled or Frozen	221.5	167.4	288.6	112.0
Pork, Chilled or Frozen	203.0	171.2	135.4	171.5
Poultry and Products, Chilled or Frozen	548.1	654.3	739.1	780.2
Sausages	330	335	272	281
Wheat and Rye Flour	2908	3030	2734	2632
Bread	2034	1978	1828	1807
Fish Products	33	33.7	66.8	44.5
Sunflower Oil	2258.1	1906.4	2878.3	3098.8
Juices	447	421	292	309
Butter	100	84.8	74.7	79.5
Cheese	246	236	224	207
Yogurts and Sour Milk Products	532	532	492	479

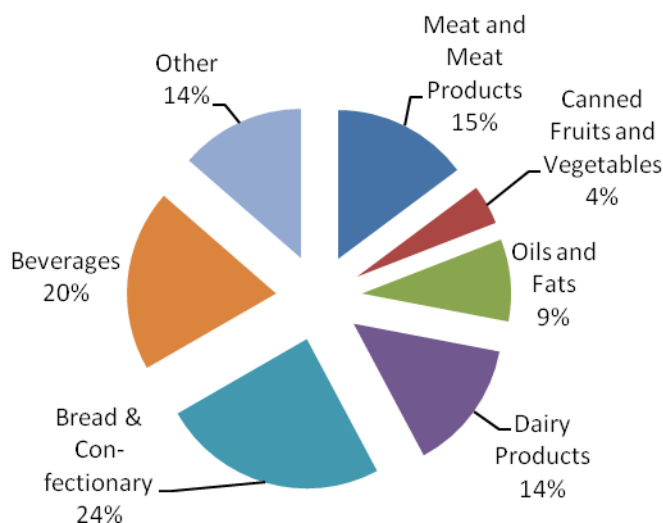
Chocolate and Product	344.9	364.6	348.4	372.8
Wine (1000 decaliters)	19467	21050	23102	29611
Ethyl Spirit	31741	27891	26699	24608

Source: State Statistics Service of Ukraine

Data in 1,000 mt

Many subsectors of Ukraine’s food processing industry are oriented towards the domestic market and highly dependent on disposable income. In many cases it is possible to establish a direct correlation between production of a selected food product or import of an ingredient and average salary level. Orientation on the domestic market partially explains the industry slowdown observed in 2010-2012. Domestic demand was largely satisfied and lack of sizable markets abroad led to stagnation in some sub-sectors of food production. Development of foreign markets is complicated by post-crisis developments in the neighboring countries and political situation in traditional markets of Formers Soviet Union (FSU) countries. Many neighboring FSU countries are not WTO members and protect their markets from competition using high tariffs, the food security argument, or for political reasons. Exports to markets of the EU countries are often complicated by technical barriers to trade and high import duties.

Ukrainain Food Processing Subsectors* in 2011



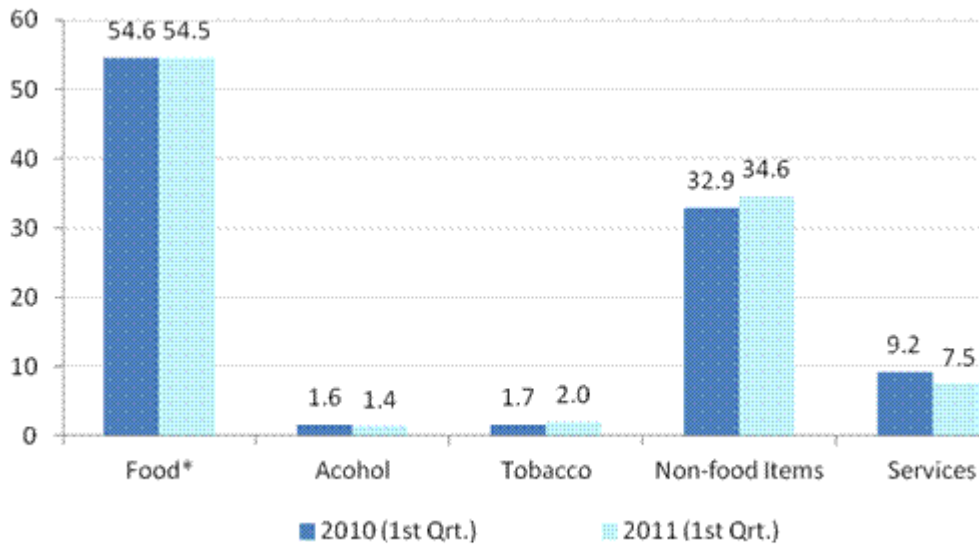
Source: State Statistics Service of Ukraine

*By volume of the product

More than 92 percent of all food products consumed in Ukraine are produced domestically. The current level of domestic production and consumption for most food and agricultural products in Ukraine are still half the levels recorded during the last few years of the Soviet era. The seafood, fruit and vegetable, and beverage sectors have expanded very rapidly over the past years. Conversely, meat, fats, and dairy production has decreased. Production in the remaining sectors is relatively stable.

According to the World Bank's country classification, Ukraine belongs to the group of lower-middle-income economies (\$1,006 to \$3,975). Consumption of food products accounts for a significant share of an average Ukrainian family's disposable income. In 2011, the share of food product expenditures in the Consumer's Price Index (CPI) consumption basket reached almost 55 percent.

Ukrainian Households Income Distribution (in percent)

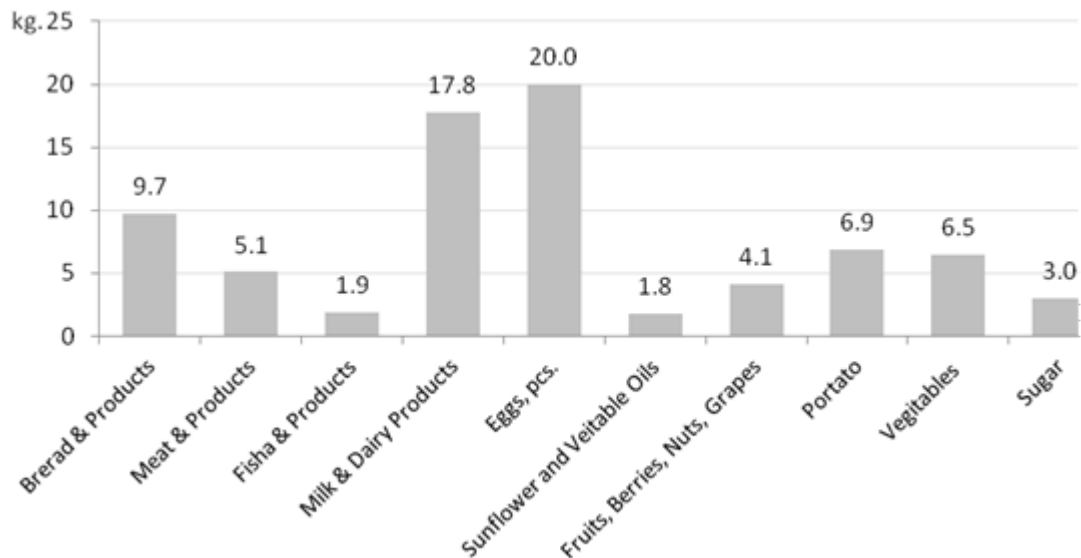


* Including Eating Out

Source: State Statistics Service of Ukraine

In 2011, Ukrainians consumed the following products:

Per capita Food Consumption (1st Qtr. of 2011)



Source: State Statistics Service of Ukraine

Kg per capita

The food-processing industry still suffers from the Soviet era legacy when processors were designed for large scale production and subsidized inputs. The number of enterprises in sugar processing, dairy and meat-packing greatly exceeds market requirements, given the significant reduction in raw supplies and structural changes in agricultural production. The insufficient number of oil-crushing facilities was expanded by large multinational companies. These companies renovated many existing facilities or built new ones in order to meet demand. Crush capacity increased from 3.8 million tons in 2003 to 6.2 million tons in 2012. Grain handling and processing facilities were also renovated, and a number of new export-oriented port terminals built. One of the new grain terminals (with a capacity of 100,000 tons) was built in Sebastopol. Other port terminals were completely renovated in recent years including Yuzhnyj terminal (TIS) and the grain terminal in Odessa.

The average Ukrainian dairy processing facility is working at only 52-57 percent capacity; pasta and bread producers at 51-60 percent; flour mills at 30-38 percent; fruit and vegetable processing or canning enterprises at 34-39 percent during winter and spring and 60 percent capacity during summer and fall months. (A survey of the processing industry was conducted by the World Bank / International Finance Corporation (WB/IFC) in 2003). Utilization has slightly improved since then. Many processors have substantial underused capacity and are capable of sharp production increases. Growing domestic demand for high quality goods will eventually lead to increased imports of foreign ingredients.

A few large producers (both foreign and domestic) dominate many sub-sectors. The beer industry is dominated by four breweries that captured over 85 percent of the market in 2011; the confectionary industry by 10 companies (controlling over 70 percent of the market); and dairy by 15-20 producers (capturing over 70 percent of the market). Many of these large companies have purchased their less efficient or smaller counterparts in different regions to expand production in new markets.

The export of ready-to-eat products is also growing. Competitively priced Ukrainian products sparked interest of price cautious buyers in Russia and other FSU countries, where Ukraine is struggling to recapture its traditional markets. The export of processed food products reached \$2.5 billion dollars and continues to increase. This dramatically increases the demand for ingredients and opens new opportunities to US suppliers.

The import of food ingredients to Ukraine is complicated by technical barriers to trade (TBTs) such as sanitary and phytosanitary measures, veterinary permits, compulsory certification of certain imports, outdated Ukrainian standards, and unclear and quickly changing legislation. The lack of clarity in many laws means that it is difficult to understand actual non-tariff requirements for imported products. There is a special [Food and Agricultural Import Regulations and Standards Report](#) that addresses these questions.

Imports of Agricultural Products

Nearly 92 percent of all food products consumed in Ukraine are produced domestically. These products include meat, poultry and dairy products; macaroni; confectionery and bakery products; alcohol and non-alcoholic drinks; and canned meat and vegetables.

Ukraine: 15 Major Agricultural and Food Imports (CIF Value)

Commodity	Description	Million U.S. Dollars			percent Share			percent Change 2011/2010
		2009	2010	2011	2009	2010	2011	
08	Edible Fruit and Nuts	632	733	683	14.0	14.0	11.6	-6.8
21	Miscellaneous Food	422	466	592	9.4	8.9	10.0	26.9
18	Cocoa	302	407	492	6.7	7.8	8.3	20.7
24	Tobacco	456	471	478	10.1	9.0	8.1	1.3
22	Beverages	189	271	421	4.2	5.2	7.1	55.6
09	Spices, Coffee, Tea	194	234	306	4.3	4.5	5.2	30.9
02	Meat	569	458	292	12.6	8.7	5.0	-36.2
12	Misc. Grain, Seed	136	179	286	3.0	3.4	4.8	59.6
20	Preserved Food	196	223	277	4.4	4.3	4.7	24.1
23	Food Waste	207	208	247	4.6	4.0	4.2	18.6
1511	Palm Oil & Its Fractions	220	274	236	4.9	5.2	4.0	-13.8
17	Sugars	88	231	231	1.9	4.4	3.9	-0.3
10	Cereals	99	146	220	2.2	2.8	3.7	51.1
19	Baking Related	96	126	165	2.1	2.4	2.8	31.0
04	Dairy, Eggs, Honey	141	135	150	3.1	2.6	2.6	11.0
	Other not Listed	569	681	828	12.6	13.0	14.0	n/a
	Total Import HS -24	4513	5245	5904	100	100	100	12.6

Source: State Customs Service of Ukraine

Imported food products are mainly those items not produced domestically. Among these products are:

- Coffee, tea and snack foods
- Canned fruit
- Canned vegetables
- Gourmet/delicatessen meat and fish products
- Chocolate products
- Cheese and yogurt
- Baby food
- Alcoholic beverages
- Juices
- Olive oil

Ukraine: 15 Major Commodities Exported to Ukraine from the United States

(CIF Value)

Commodity	Description	United States Dollars			percent Share			percent Change
		2009	2010	2011	2009	2010	2011	2011/2010
12	Misc. Grain, Seed	23.0	27.1	39.9	7.94	11	25.39	47.4
24	Tobacco	16.4	15.0	19.4	5.66	6.07	12.3	29.35
21	Miscellaneous Food	13.7	14.2	16.8	4.72	5.78	10.67	17.89
04	Dairy, Eggs, Honey	12.4	15.6	14.3	4.29	6.34	9.11	-8.34
10	Cereals	28.4	21.8	13.8	9.8	8.83	8.8	-36.41
08	Edible Fruit and Nuts	5.8	8.2	12.1	1.99	3.32	7.68	47.69
02	Meat	166.7	120.5	10.8	57.5	48.94	6.88	-91.02
3505	Dextrins Etc; Glues Based On Starches, Dextrin Etc	5.3	7.1	7.8	1.84	2.87	4.98	10.91
22	Beverages	1.5	1.7	6.6	0.5	0.69	4.18	289.19
23	Food Waste	10.4	6.3	3.5	3.6	2.58	2.24	-44.57
20	Preserved Food	0.7	0.7	3.4	0.24	0.29	2.16	372.69
17	Sugars	1.6	1.8	2.1	0.55	0.74	1.31	12.5
13	Lac; Vegetable Saps	1.5	3.0	1.7	0.53	1.22	1.1	-42.11
1517	Margarine; Edible Mixtures Etc An Or Veg Fat & Oil	0.0	0.5	1.3	0.01	0.2	0.8	156.99
07	Vegetables	0.5	0.7	0.8	0.18	0.28	0.51	16.4
	Other not Listed	1.9	2.1	3.0	0.65	0.85	1.89	n/a
	HS 1-24 Total	290.0	246.3	157.3	100	100	100	-36.14

Source: State Customs Service of Ukraine.

The biggest trade drop that took place in 2010-2012 happened because of drastic decrease of US poultry exports that used to be an important ingredient for the Ukrainians food processors. Please see [GAIN Poultry Report](#) for more detailed explanations.

Trade in food products and ingredients between the U.S. and Ukraine is far from reaching its potential. This leads to highly volatile data and unclear prospects for specific U.S. products and commodity groups in Ukraine. Thus far, U.S. producers have mostly supplied moderately priced goods for further processing. Imports of food ingredients, additives, seasonings, spices, fruit and vegetable products have increased significantly along with the growth in Ukraine's domestic food processing industry.

Demand for inputs is strong in the meat and dairy sectors, the beverage industry, and for such products as sauces, mayonnaise, margarine, juices and other non-alcoholic beverages. Growth is particularly strong for:

- Vegetable and fruit purees; dry concentrates
- Dried fruit including apricots, prunes and raisins
- Spices (pepper, vanillin, cardamom, cinnamon)
- Nuts (excluding hazelnuts and walnuts)
- Stabilizers, emulsifiers, flavorings, proteins, pigments, and other additives.

Food Safety and Import Tariff Regulations

Detailed explanations as to Food and Agricultural Import Regulations and Standards (FAIRS) are provided in the GAIN [FAIRS Report](#) and additional FAIRS reports (the links are provided in the text of the main report). Ukraine possesses a rather complex and costly food safety regulating system which complicates trade in food ingredient. Controls are implemented by various state agencies that often have overlapping functions. The situation is worsened by regulatory system reform announced in December of 2010. The reform is still in progress and may not be finished by the end of 2012. Due to unpredictable changes of the food safety system it is difficult for foreign suppliers to be aware of the most current food safety regulations. Suppliers should work with experienced importers in order to verify most current import requirements prior to shipping to Ukraine.

Importers face a value-added tax (VAT), import tax, fees, and, if applicable, an excise tax. The VAT is levied at 20 percent, based on the customs value on the invoice. Generally, the importer pays the VAT at the time of customs clearance. Ukraine has been a WTO member since May of 2008 and employs a one-tier system of import tariff. The current tariff schedule contains mostly *ad valorem* rates. A limited number of fixed (per unit) import duties cover mostly spirits and alcohol products. Most import tariffs for food ingredients are comparatively low, although custom clearance procedure is often complicated by non-tariff barriers to trade, unclear custom valuation practices, and other factors. Imports subject to an excise tax include alcohol and tobacco products.

Table 8. Advantages and Challenges facing U.S. products in Ukraine

Advantages	Challenges
Ukraine's food sector is growing, revealing big opportunities for U.S. exports	Exports to a developing market is risky
Rising incomes and changes in consumption patterns have led to increased demand for top quality high-value food products	Per capita annual income in Ukraine is still low around \$2,980 (UAH 23,800) for 2011
Insufficient quantity of domestically produced innovative high quality components for food industry	U.S. products face strong competition from EU countries
Bigger food producers are being formed through acquisitions and mergers	Majority of producers are price cautious and do not consider expensive components for mass production
Growth in direct foreign investment has led to increased utilization of imported food ingredients	Unclear custom valuation rules, food safety regulations, sanitary and phytosanitary restrictions hamper the import of fresh produce and certain food ingredients
Ukraine's favorable geographic location promotes increased trade in processed food products to Eastern and Central Europe and the FSU	Underdeveloped domestic retail network with significant share of foodstuffs sold through small stores and open air outlets
The growing popularity of U.S. fast food chains favors their existing procurement systems which source many food ingredients from the United States	

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

There is no single market entry strategy recommended for new-to-market exporters. First, the exporter should define whether Ukraine is a key market for the product, or only insignificant occasional deliveries can be made. The following factors should be considered:

- The need for the product in the market, given consumers' income trend and particular food sector development perspectives;
- Availability of the same or similar products produced domestically (often Ukrainian producers are capable of creating barriers to trade by lobbying their interests in the GOU, Parliament or even veterinary or health inspection services).
- Availability of the same or similar products from EU or FSU as well as comparative advantage of U.S. products (e.g. quality, price, transportation expenses, packaging, labeling, etc.)
- Tariff and non-tariff regulations.

If the Ukrainian market looks promising, then the establishment of a representative office to deal with buyers directly is recommended. Personal relationships are very important in Ukrainian business practices and few problems can be effectively resolved over the phone. It is a very common practice in Ukraine to purchase inputs directly from the producer. Even if the exporter's policy is to work through the European or Russian based distributor, most Ukrainian partners will attempt to contact the producer directly.

In the past many U.S. companies dealt with Ukrainian partners through a representative office in Moscow. This is no longer very common. Note that the Ukrainian food components market is small at the moment and relatively few products could justify a representative office in Kyiv. In this case the second market entry strategy is recommended, which is currently used by the vast majority of U.S. exporters.

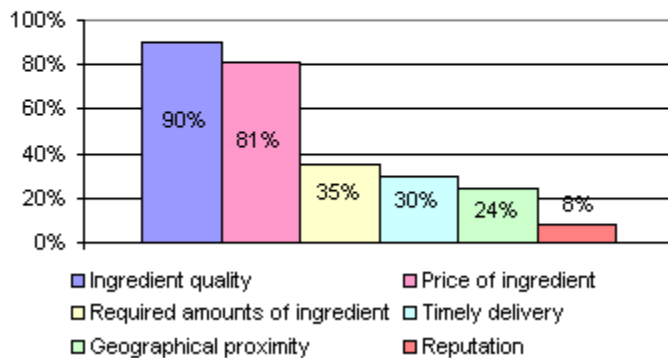
Work through a Ukraine-based importer or through the procurement service of the buyer (the latter is the most convenient if there are only two or three potential buyers). Due to frequent changes in Ukrainian legislation, changing custom clearance rules, SPS and veterinary procedures, it is recommended to leave it to the Ukrainian partner's discretion. Ukrainian importers also take care of the entire logistic chain, inland transportation and distribution.

U.S. companies should approach potential Ukrainian partners with extreme caution. While the extent of information on Ukrainian companies has improved, there is still a significant dearth of background data and credit histories on potential Ukrainian distributors. This presents the greatest obstacle to finding reliable, competent distributors. In order to obtain a due diligence report on a potential Ukrainian partner, a U.S. company is advised to contact either a law firm or a financial service firm that is internationally respected.

Selected products may enter the market under a different route, via a Ukraine-based U.S. intermediary who fits the distribution scheme better and works more effectively than a Ukrainian importer. This can be the case if the importer's technical skills and expertise are insufficient for product promotion.

WB/IFC survey demonstrates that the quality of inputs supplied for processing is the decisive factor influencing decisions by the Ukrainian processor:

Significant Factors Influencing Ingredient Choice by Processing Businesses



Source: WB/IFC Processing Sector Survey

WB experts note that the availability of required raw material is particularly important in the dairy sector, while timely delivery is more important for processors of fruit and vegetables. Geographical proximity is a factor for producers of mixed feeds. For closing ingredients supply contacts, the role of such factors such as supplier's market reputation, personal connections and colleague references are not regarded as important.

B. Market Structure

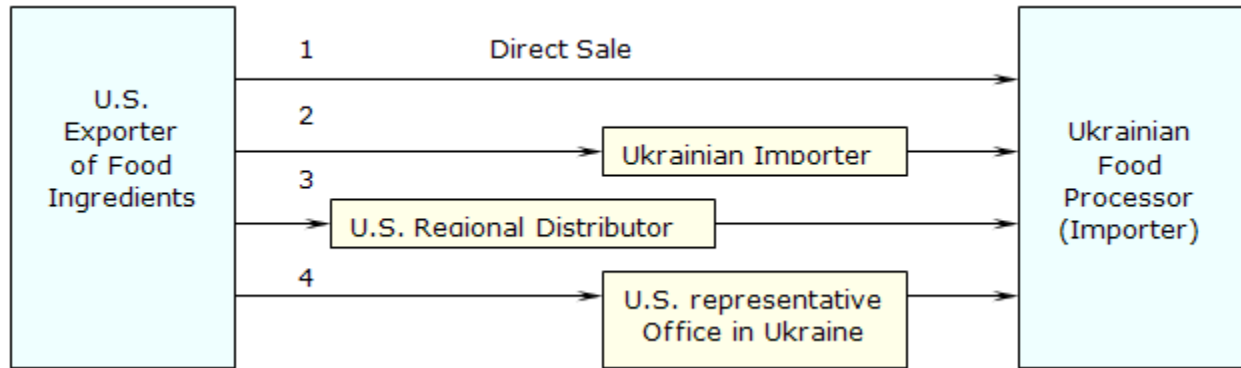
The Food Ingredients Distribution Chart summarizes the information above. The majority of sales go through the 2nd channel, with use of the Ukrainian distributor.

We strongly advise that all U.S. companies consider legal counsel before and while doing business in Ukraine. Ukrainian laws and regulations are vague and open to considerable leeway in interpretation at every bureaucratic level. U.S. businesspersons are advised that partnership with a Ukrainian company is a challenge that is beyond the control of the U.S. partner and his legal advisors.

Regional projection is very important in Ukraine. The majority of exporters are concentrated in the Kyiv market, where salaries (purchasing power) are the highest and the business climate is the most favorable, although Kyiv is not the only trade hub in Ukraine. Look for

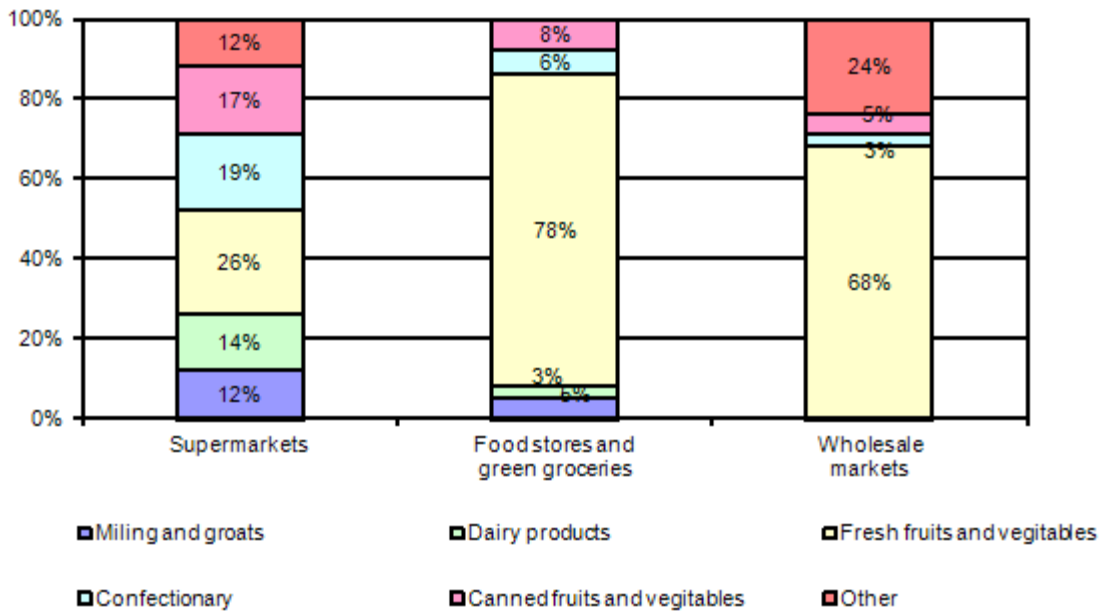
distributors with nationwide capabilities, including those in the cities of Lviv, Odesa, Zaporizhzhya, Donetsk and Kharkiv. These cities are in important industrial regions of Ukraine and are densely populated.

Food Ingredients Distribution



The proportion of imports in wholesale and retail chains varies both by specific commodity group and type of trade enterprise. Ukrainian supermarkets have the widest product mix and the biggest proportion of imports in all categories of goods. According to the industry survey conducted by the World Bank, supermarkets and greengroceries tend to have the largest portions of imported fresh fruits and vegetables on their shelves: 19 percent and 23 percent, respectively. Some 13 percent of confectionery and 12 percent of canned products sold in supermarkets also come from abroad. Except for fruits and vegetables, food stores tend to stock products of mostly domestic origin. The share of imports in all other commodity groups is under four percent.

Proportion of Imported Goods (% of overall Import)



Source: World Bank / IFC Retail Sector Survey

C. Company Profiles

Almost all Ukrainian food processing companies were privatized during the first Ukrainian privatization campaign in 1994/98. In some companies, the state maintained enough shares to influence votes, but rarely uses this power to influence managerial decisions. Since then, property has been constantly redistributed from less efficient to more efficient owners. Minor shareholders in many cases have sold their shares to big financial groups capable of undertaking ambitious investment programs in order to replace outdated equipment and technology. Between mid 90's and crisis developments of 2008, many multinational holdings entered the market, purchasing the most promising enterprises in dairy, beverage, snack, and confectionary industries. Post crisis FDI inflow shrunk significantly. Some local entrepreneurs were able to develop big and profitable businesses, which shape the Ukrainian food processing sector today. Small processing workshops that mushroomed in the early 1990's can no longer compete with the large players. Their market share is shrinking quickly.

There are thousands of companies operating in the food processing area. It is not possible to compile a comprehensive table that would include a significant share of them. An interested U.S. exporter should approach the [Foreign Agricultural Service Office in Kiev](#) with specific request. The office maintains and updates a database of Ukrainian importers and can perform an individual search query. An illustrative table of food processors is provided below.

Major Ukrainian Food Producers

Product	Producer	Estimated Sales* \$1,000, (year)	Share in total output of the sector in 2011 percent	End Use channels	Procurement Channels
Fish	International Seafood Group, Kyiv	\$14375 (2010)	~15	Retail, HRI	Direct Importer
	Odessa Fish Canning Plant	-	~10	Retail	Direct Importer
	Scandinavia, Kyiv	-	~15	Retail, HRI	Direct Importer
Red Meat and Poultry	Gavrilivsky Pptahivnychiy Complex, Kyiv region	\$470,000 (2011)	~20	Retail and HRI own franchising chain	Direct, Distributors
	Mironovsky Hleboproduct	\$1,230,000 (2011)	52	Retail, HRI, own franchising and fast food chains	Direct, Distributors
	PK Dinprovsky, Dnepropetrovsk Region	\$150,000 (2011)	~6	Retail and HRI	Direct, Distributors
Dairy products	Danon Group	n/a	9.2	Retail and HRI	Direct, Importers
	Lactalis Group	n/a	6.5	Retail and HRI	Direct, Importers
	Lustdorf TOV	n/a	4.3	Retail and HRI	Direct, Importers
	"Milk Alliance"	n/a	4.0	Retail and HRI	Direct, Importers
	Pepsi Co.	n/a	3.3	Retail and HRI	Direct, Importers
Beer	"Obolon", Kyiv	\$478,000 (2011)	25.0	Retail and HRI	Direct
	Sun InBev (Anheuser-Busch InBev)	~\$990,000 (2011)	51.8	Retail and HRI	Direct
	Carlsberg Ukraine	~\$214,000 (2011)	11.2	Retail and HRI	Direct
	First private Brewery	~\$179,000 (2011)	9.4	Retail and HRI	Direct
Hard Liquor, Vodka and Spirit	Bayadera Holding	n/a	21.2	Retail and HRI	Direct, Importers
	Global Spirits AG-77 Holding	n/a	14.1	Retail and HRI	Direct, Importers
	Nemiroff UVK	\$437,600 (2010)	10.8	Retail and HRI	Direct, Importers
	Olimp Corp.	n/a	11.3	Retail and HRI	Direct, Importers
Sugar	Dubenskij Tsukrovij Zavod Rivne Region	\$294 (2001)	4.5	Retail and HRI	Direct, Importers
Starch dry	Dniprovsky Krahmalo-Patokovij Kombinat, Dnipropetrovsk Region	\$5693 (2001)	85.1	Retail and HRI	Direct, Importers, Distributors
Food concentrates (dry and condiments)	Nestle Ukraine	\$584,700 (2011)	n/a	Retail and HRI	Direct, Distributors
Flour	Kiivmlyn, Kyiv	\$22,804 (2001)	6.8	HRI	Direct, Distributors
Cereals	Skvirskij Kombinat Khlipoproductiv Kyiv Region	\$2,507.5 (2001)	16.9	Retail and HRI	Direct, Distributors
Feed	Rozovsky Kombikormovij Zavod Donetsk Region	\$5,561 (20	8.6	HRI	Direct, Distributors

		1)			
Frozen Processed Food	Herkules CJSC	\$1,470 (2003)	8.0	Retail and HRI	Direct, Distributors
	Drygalo	\$1,470 (2003)	12.9	Retail and HRI	Direct, Distributors
	Furshet Group	\$882 (2003)	8.0	Retail only	Direct, Distributors
Confectionery	Roshen Confectionary	\$431,748 (2010)	41.1 (in 2010)	Retail	Direct, Distributors
	AVK ZAT	n/a	9	Retail	Direct, Distributors
Pasta (macaroni)	Khmelnitskaia Makaronna Fabrika Khmelnitsk	\$5,285 (2001)	23.0	Retail	Direct, Importers
Non-alcohol beverages	Georgian Glass and Mineral Water	\$4,673 (2001)	14.6	Retail	Direct, Distributors
	Coca-Cola Company	\$4,134 (2001)	13.3	Retail and HRI	Direct
	Obolon	\$516,730 (2010)	7.8	Retail and HRI	Direct
Vegetable oil	Cargill Ltd Donetsk	\$7,228 (2001)	14.0	Retail Wholesale and HRI	Direct, Distributors
	Kernel Group	\$1,900,000 (2010/11 MY)		Wholesale	Direct, Distributors
	Olijno-Ekstrakcijnij Zavod, Dnipropetrovsk	\$83,586 (2001)	12.1	Retail and HRI	Direct, Importers Distributors

Source: State Statistics Committee of Ukraine, FAS Kyiv calculations, Euromonitor International

* All revenues, excluding VAT & excises

D. Sector Trends

A declared policy goal of the Ukrainian government (GOU) is to attract foreign investment. As of January 1, 2012, the total value of FDI in Ukraine was \$44.7 billion. For 2011, the food industry was one of the major recipient of FDI at nearly \$1.86 billion or 4.1 percent of total investment. Major sources of foreign investment into Ukraine's food industry include the Netherlands (\$593.1 million), Cyprus (\$308 million), Germany (\$67.8 million) and Russia (\$52.4 million). Other sources of investment include Austria, Switzerland, France, Spain, Denmark, Belgium, Norway and Sweden.

The food industry in Ukraine is becoming increasingly concentrated as less-efficient and small companies go out of business. This is resulting in vertically integrated operations where all stages of production "from the field, to the table" are concentrated within one large company. Vertically integrated companies are seen increasingly in the fruit and vegetable, meat and poultry, and milling and dairy industries.

Ukraine: Major Food Industry Foreign Investors

Company	Product(s)	Country of Origin
Nestle S.A.	Confectionery; ice cream; Sauces	Switzerland
Kraft Foods	Confectionery; snack foods	USA
McDonald's	Fast food	USA
Cargill	Vegetable oil and animal feed	USA
Bongrain Europe	Cheese	France
Benye/Lactalis	Dairy	France
Pepsi Co.	Beverages	USA
Dannon	Dairy	France
Anhoiser Busch InBev	Beer	USA / Int.
Efes	Beer	Turkey
Coca-Cola	Soft drinks; natural water	USA
Bircher Benner	Dry Breakfast	Switzerland
Euro Foods	Dry goods; condiments	Spain
Agrovita	Meat and poultry processing	Sweden
OSI Foods	Meat Processing	USA/Germany
Suth Foods	Fruit and vegetable processing	Sweden
Shaller	Spices; meat, equipment	Austria
Billa AG	Food retail	Austria
Metro AG	Food retail discounter	Germany

Source: FAS/Kyiv own estimates

In many cases foreign investors prefer to invest in both food processing and agricultural production in an attempt to insure inflow of raw materials and decrease input price risks. They also tend to bring their own processing equipment as well as packaging materials.

Major U.S. food producers have made some significant investments in Ukraine. Cargill Inc. invested over \$50 million in an oil crushing plant in the Donetsk region. This enterprise is capable of processing 1,000 MT of sunseed a day and is one of the largest crushing facilities in Ukraine. Investments made by Coca-Cola Inc. in the non-alcohol beverage sector exceeded \$270 million. By the end of 2010, McDonald's Corp. had invested over \$100 million and had 70 fast food outlets. McDonald's has a presence in 21 Ukrainian cities. More investments have been announced for 2012 by other major U.S. fast food chains. This will continue to drive demand for imports of food ingredients. It is likely that new businesses will attempt to use the same ingredients as in the U.S. to maintain quality and uniformity of their products.

The following trends will dominate the Ukrainian food processing sector in the next two to four years:

- Increase of foreign direct investments in the food processing industry;
- Increase in use of additives (preservatives and stabilizers);
- Graduate consumption growth of processed fruits, vegetables, milk, fish, and meat products;
- Increase in demand for convenience foods (highly processed, easy to cook, microwavable, and ready to eat products);

- Reduction in the number of small food processors, domination of larger companies in most food markets;
- HRI sector, which plays a minor role in the market, will continue to develop;
- Growth of supermarket chains will be slow with more stores developing in large cities;
- The level of processed food consumption is likely to grow in the medium term with low priced products dominating the market;

The trend to consume more “healthy foods” (low in fat and cholesterol, reduced sugar or sugar free) is not yet profound in Ukraine. The diet of many low-income consumers is not nutritionally balanced and concern for healthier foods is found only in big cities, where consumers are wealthier and can afford more expensive products. Biotech products have a negative public perception in Ukraine and compulsory labeling makes them easily identifiable in supermarkets. So far there have been no biotech labeled products registered and observed on the market. Ukrainian legislation on biotechnology is in development and it is difficult to forecast what measures will be adopted.

SECTION III. COMPETITION

Products from the European Union are the main competitors for U.S. food ingredients. CIS countries cannot compete with European and US producers in high value added and processed products, but are quite successful in supplying cheap ingredients. Currently, over 30 percent of food products (both processed and raw materials) are imported from the EU, and almost 20 percent from CIS. Germany, Netherlands, France and Italy are the main suppliers of food ingredients to Ukraine. As consumer preferences shift to more expensive products, more opportunities will arise for U.S. and European companies and less for CIS.

Competitive Situation in the Ukrainian Food Ingredients Market

Product Category	Major Supply Sources in 2011*	Strengths of Major Supplying Countries	Advantages and Disadvantages of Local Suppliers
Poultry meat* Net imports: 52 TMT US\$ 4.2 mil (CIF) in 2011	1. U.S. – 8 percent 2. Germany – 30 percent 3. UK – 13 percent 4. Netherlands – 13 percent	European suppliers are price competitive, supply mostly mechanically deboned meat for further processing. US share shrunk to 8 percent from 62 percent in 2010. Once significant, this market can disappear.	Quickly developing domestic suppliers are increasing their market share. The use of technology has advanced greatly over the past 5 years.
Almonds Net imports: 1.6 TMT US \$ 5.8 mil (CIF)	1. US – 99 percent	U.S. product rules on this market. Competition is almost absent.	There is no local production, although there is a demand from snack and confectionary industries.
Tree Nuts Net imports: 8.8 TMT	1. US – 22 percent 2. Iran - 15 percent 3. Turkey – 14 percent	U.S. competitors supply hazelnuts, pistachio, and walnuts, leaving almonds to	There is no nut production in Ukraine. Some walnuts come to the market from natural

US \$ 8.8 mil (CIF)	4. Georgia – 13 percent	U.S. suppliers. Most competitors are located in close proximity to Ukraine (mostly the Black sea region) and offer good deals for price cautious Ukrainian buyers.	forests and household sector.
Fish and fish products Net imports: 390 TMT US\$ 47mil (CIF)	1. US – 7 percent 2. Norway – 32 percent 3. Estonia – 7 percent 4. Iceland - 10 percent 5. Canada – 5 percent 6. Russia – 5 percent	U.S. share of Ukrainian market is quickly growing while share of traditional exporters (Estonia and CIS countries) is shrinking. Norway promotes its products very aggressively, investing in processing and cold storages. The Russian share is stable and surprisingly low.	Local production is limited mainly by fresh water fish and Black sea basin fish. Atlantic fish quotas for Ukraine are small. Popular fish species are not supplied by local fishermen and have to be imported.
Hop Extracts and Hop Cones Net imports: 566MT US\$ 98 mil	US – 8 percent Germany - 82 percent Turkey -5 percent	U.S. share of Ukrainian market is substantial although competition with traditional beer producer Germany is significant.	Local production is insignificant although growing. Ukrainian producers invest in less capital intensive crops with faster money turnover.

Source: State Customs Service, FAS Kyiv Calculations.

* In value

SECTION IV. BEST PRODUCT PROSPECTS

A. Best Product Prospects with Good Sales Potential

The following import sectors are the most to grow in the short term:

Products with Best Sales Prospects in Ukraine

Product	2011 Market volume	2011 Import volume	Average growth of import over the last 3 years	Import taxes	Main factors hindering import development	Attractiveness of the market for the USA
Beef	408 ths. tons	8 ths. tons	No change	15 percent	Consumer unawareness of U.S. high quality beef; Sizable domestic production, Complicated import	Insignificant specialized beef production; Constantly growing beef prices; Niche markets for meat delicacies (steak, etc.) and meat

					procedures.	offal; Fast HRI development.
Pork	821 ths. tons	119 ths. tons	12 percent Decline	10-12 percent	Competition from Brazilian, German and Polish pork, complicated import procedures.	Shortage of pork in the country; declining production; high prices; Demand for stable deliveries of both cheap and high quality product.
Fish and Seafood	~570 ths. tons	390 ths. Tons	10-20 percent	0 – 5 percent for all frozen fish; 10 percent for prepared fish, live fish, Mackerel, Trout, some Crustaceous, Anchovy, Salmon and Lobsters.	Regular deliveries of high quality product from Norway; Shortage of suitable equipment at retail trade outlets; Deficit of proper storage facilities with below -20C temperature.	Growing demand for higher quality seafood from consumers; Significant demand from supermarkets and HRI sector.
Dried fruits	50 ths. tons	10.6 ths. tones	30 percent	From 0 percent to 20 percent	Sharp competition with CIS countries and Turkey. Desire of packers to save on raw stock, procuring low quality stock from Iran, Uzbekistan and Tajikistan	Intensive development of confectionery industry and start of retail sales of rare dried fruits. High quality of U.S. product; Development of premium-class confectionery products

* All imported products are subject to 20 percent VAT tax;

** No 2010 data is available by the time when this report was drafted.

B. Products in Demand but in Smaller Volumes

There are many food products that are not exported to Ukraine in large quantities for various reasons. The major reason is limited consumer incomes. The market for the products listed below is developing and larger quantities are likely to be supplied within 3-5 years. Local production currently is limited and demand, although increasing, is still small:

- Processed vegetables, ready-to-cook dishes and snacks (excluding chips);
- Baby food;

- Food ingredients for processing sector: non-sugar sweeteners, fructose, vegetable oils, protein or vitamin additives for production of diet and health food;
- Products for dietary consumption.

Due to the complicated epizootic situation in European Union countries and declining imports from there, US exporters may discover markets of albumin, agar-agar, gelatin and similar products.

C. Absent Food Product Imports Due to Significant Barriers

- Some food additives and processed food products containing food additives are not permitted in Ukraine (thickeners, sweeteners, stabilizers, etc.). The list of allowed food additives is available from FAS-Kyiv.

SECTION V. POST CONTACT AND FURTHER INFORMATION

Should you have any questions about this report or need assistance, please do not hesitate to contact the Agricultural Affairs Office in Kyiv at the following Address:

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A list of importers is available from FAS Kyiv to exporters of U.S. food products. For the most recent "Exporter Guide" and product briefs please visit USDA's Foreign Agricultural Service official website at http://gain.fas.usda.gov/Lists/Advanced_percent_20Search/AllItems.aspx.